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Spirit AeroSystems Holdings, Inc. (SPR)

Q1 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen, and welcome to the Spirit AeroSystems Holdings, Inc.'s First Quarter 2019 Earnings Conference Call. My name is Rocco and I'll be your coordinator today. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there'll be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the presentation over to Ryan Avey, Director of Investor Relations. Please proceed.

Ryan Avey

Director - Investor Relations, Spirit AeroSystems Holdings, Inc.

Thank you, and good morning, everyone. Welcome to Spirit's first quarter 2019 earnings call. I'm Ryan Avey, Director of Investor Relations. And with me today are Spirit's President and Chief Executive Officer, Tom Gentile, and Spirit's Senior Vice President and Chief Financial Officer, Jose Garcia. After opening comments by Tom and Jose regarding our performance and outlook, we will take your questions. In order to allow everyone to participate in the question-and-answer segment, we ask that you limit yourself to one question please.

Before we begin, I need to remind you that any projections or goals we may include in our discussion today are likely to involve risks, which are detailed in our earnings release, in our SEC filings, and in the forward-looking statement at the end of this web presentation. In addition, we refer you to our earnings release and presentation for disclosures and reconciliation of non-GAAP measures we use when discussing our results. And as a reminder, you can follow today's broadcast and slide presentation on our website at investor.spiritaero.com.

With that, I'd like to turn the call over to our Chief Executive Officer, Tom Gentile.

Thomas C. Gentile III

President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.

Thank you, Ryan, and good morning, everyone. Welcome to Spirit's 2019 first quarter earnings call. We had a strong quarter financially and I will summarize those results shortly, but I want to begin today by focusing on the recent situation involving the 737 MAX.

In our industry, safety is the most important priority. We focus every day on safety in our factories and in the products we build. We know that millions of people around the world depend on the safety of the planes they fly every day, which is why all of us were so devastated after the recent accidents involving Lion Air and Ethiopian Airlines. Our sincere condolences go out to the families of those involved in these tragic events. Everyone is well aware of all the efforts that Boeing is taking to address the 737 MAX situation. We are proud to be a partner on the MAX, and we'll work with our largest customer, Boeing, and provide them with whatever support they need as they work with regulators around the world to return the MAX to service.

Spirit makes 70% of the structure of the MAX aircraft, including: the entire fuselage, the pylon which holds the engine to the wing, the thrust reverser, and the flaps and slats of the wings. It is an important program to Spirit, and we have an increasing production on that aircraft from 42 shipsets per month in 2016 to 52 aircraft per month in 2018. Our previous plan had been to increase production from 52 to 57 aircraft per month during the second quarter of 2019. Following Boeing's decision to adjust their production temporarily to 42 aircraft per month, which they announced on April 5, we work closely with them to minimize disruption to Spirit's operations and our supply chain.

We recently announced an agreement we reached with Boeing to continue producing at a rate of 52 aircraft per month even as they reduce their production to 42 aircraft per month. During the period in which we are producing at a higher rate than Boeing, we will continue to deliver to Boeing as we always do outside of our factories in Wichita and Tulsa. Boeing will pay us for the deliveries and take possession of the shipset parts. Spirit will then store all the parts, including the fuselages on our premises until Boeing is ready to receive shipsets at their factory in Renton, outside of Seattle.

We have done this storage procedure before during previous work stoppages at Boeing and are familiar with the process. We are installing temporary mechanisms at Spirit's expense to protect the fuselages from inclement weather during storage in Wichita. We will store all of the other Boeing 737 MAX parts indoors in our facilities. When Boeing resumes their planned rate of 57 aircraft per month production, Spirit will remain at 52 aircraft per month until we burn down the stored MAX shipsets, at which point, we will increase production to 57 aircraft per month. This standard delivery approach will enable Spirit and our supply base to provide better support to Boeing during this period of time while they are working with global regulators and airlines to return the Boeing 737 MAX fleet to service.

As I've described in the past, the approach Spirit has been implementing to go to 57 aircraft per month involves three production lines in our major plant in Wichita where we manufacture the 737 fuselages. At this point, we are now producing all MAX fuselages except P8 aircraft and some minor models. Each production line will have the capacity to produce 21 aircraft per month. At a production rate of 57 aircraft per month, each line would have produced 19 aircraft per month and we would have had two days of buffer per month in each line. While we remain at 52 aircraft per month, we will add extra buffer days into each production line to achieve that production rate. In total, we will have 11 or 12 buffer days each month across the three lines.

The advantage of this approach is that our production system will be set up to produce at a rate of 57 aircraft per month but we'll only deliver 52 aircraft per month with the buffer days. These buffer days will enable us to reduce overtime and contractors significantly below our previous plan levels and remain poised to increase to 57 aircraft per month when directed to do so by Boeing. During this time, we will reduce hiring as attrition occurs to align head count to the production rate of 52 aircraft per month. With these actions, we are not planning layoffs at this time. The stability of remaining at 52 aircraft per month longer than we had previously planned will help us improve efficiency and quality, while enabling our supply chain to get healthier as well. We will take full advantage of this opportunity.

Given the importance of the 737 program to Spirit, which accounts for about 50% of our annual revenue, the global grounding of these aircraft is a significant event. Our prior guidance for 2019 assumed we would produce 737 monthly production – that we would increase the 737 monthly production in June 2019 to 57 aircraft. As we now expect to remain at 52 aircraft per month for some period of time, the guidance does not reflect our current outlook. Due to these uncertainties, we will issue updated guidance for 2019 when we receive more definitive information on the timing of the 737 MAX return to service and Boeing's new production schedule. What we do know is that we will produce fewer 737 MAX aircraft this year than we had previously forecasted by five units per month beginning in June for as long as we remain at a production rate of 52 aircraft per month.

We are taking a number of actions to mitigate the impact of this new production schedule as summarized on slide 2. Given the reduction in production units and corresponding revenue, we have begun taking immediate actions to reduce expenses, defer capital investments, and we double our efforts on working capital improvements to mitigate the financial impacts of the production rate change. One action we have taken is to review all capital expenditure projects. We have deferred or delayed anything not an absolute priority for this year and will now spend only $200 million to $250 million rather than our previous forecast of $250 million to $300 million.

Along with initiatives to manage working capital more efficiently and an advance from Boeing to help with supply chain working capital requirements, we plan to mitigate the impact of the MAX production change on cash flow. By reducing discretionary expenditures, managing indirect and non-labor expenses more efficiently, and realigning our direct labor and variable cost to the new production levels, we plan to offset some of the impact of the 737 MAX production change on operating profit, but still expect some headwinds which we will quantify as we get more certainty on our production rate for 2019.

We have a strong cash position with over $1.2 billion cash on hand at the end of Q1. After we close the Asco deal, which I will describe below, and taking into account the cash we will generate in Q2, we will have approximately $800 million in cash on our balance sheet at the end of Q2.

Now, let's take a closer look at first quarter results, which were very strong. At $1.968 billion, revenue was up 13% over Q1 of 2018. Operating income was 46% up to $233 million, adjusted earnings per share was up 53% at $1.68. Our segment operating margin was 15.3%, which is down as we expected from Q4 because we had all of the costs in place to produce 57 aircrafts per month in Q1, but we're still only delivering and getting paid for 52. Margins are on track to improve over the course of the year; although now, of course, we'll face the additional headwinds of the 737 52 aircraft per month production rate versus our plan of 57 for the back half of the year. Jose will provide a more detailed financial overview in a few minutes.

And now, a few other recent highlights on slide 3, starting with Asco. We were pleased to receive conditional clearance from the European Commission for the acquisition of Asco on March 20 and expect to finalize the closing in Q2 after meeting the required conditions. The work that we are currently doing involves segregating data to which Asco had access as part of the BELAIRBUS structure. Once we identified that data and treat it consistently with the Commission's requirements, we will be in a position to close the deal. That work is well underway and should be completed within the next few weeks.

Asco remains a compelling strategic fit for Spirit as the acquisition expands our Airbus content, adds new defense content and broadens our fabrication business. We are excited to begin executing the detailed integration of Asco into the Spirit family. As we have previously discussed, the closing process has been longer and more costly than we originally anticipated. Accordingly, Spirit and Asco have negotiated a 7% purchase price reduction from $650 million to $604 million due to the incremental acquisition cost and the business impact from the delayed closing. We will provide a full update of the Asco deal economics when we close it in Q2.

In other growth developments, we announced the collaboration agreement with Aerion for the preliminary design of the forward, pressurized fuselage for the AS2 supersonic business jet program. Joining a project team this early allows us to apply our technical expertise and commercial best practices to make the most positive impact. We can create cost-efficient, innovative engineering solutions that take into account Spirit's highly efficient manufacturing processes. We were proud to be selected by Aerion for this program and look forward to contributing to the success of this groundbreaking new airplane.

We also announced membership in the University of Strathclyde's Advanced Forming Research Centre or the AFRC. Located in Glasgow, Scotland, the AFRC is one of the UK's leading research institutions, concentrating on innovation and breakthrough technologies in manufacturing. This relationship with the AFRC further leverages Spirit's investment in the creation of a new 70,000-square-foot Aerospace Innovation Centre at our manufacturing site in Prestwick, Scotland, which will open in 2020. In addition, we delivered the first low rate initial production unit, the CH-53K program, to Sikorsky. We continue to be very excited about the long-term prospects of this heavy-lift helicopter for the Marines and foreign military sales.

Finally, we returned $88 million to shareholders with $75 million in share repurchases and $13 million in dividends. Given the uncertainties surrounding the 737 MAX, we have paused share repurchases until we have more clarity. As we continue forward to the remainder of 2019, we are obviously going to continue working hard to manage and mitigate all of the issues surrounding the MAX. As I've said earlier, we are proud to be on the MAX program and confident that it will be an outstanding aircraft for airlines and passengers in the years to come. At the same time, we remain focused on all other aspects of our business, which remain very strong and are taking actions to mitigate the impact of the MAX production changes in 2019.

With that, I'll ask Jose to lead you through the detailed financial results. Jose?

Jose Ignacio Garcia

Senior Vice President & Chief Financial Officer, Spirit AeroSystems Holdings, Inc.

Thank you, Tom, and good morning, everyone. Let me summarize our first quarter financials. Let's start on slide 4. Revenue for the quarter was approximately $2 billion, up 13% from the same period of 2018. This was driven by higher production volumes from the 737 and 787 programs. Favorable model mix on the 737 as we transition to the MAX from the NG and higher revenue recognized on the 787, partially offset by lower non-recurring activities.

Moving to slide 5, we reported adjusted EPS of $1.68 per share compared to $1.10 in the first quarter of 2018. This represents a 53% increase year-over-year. Adjusted EPS excludes the impact of the Asco acquisition, which includes deal transaction expenses and the impact from the FX derivative instrument to minimize the impact of euro currency fluctuations from the time we announced the deal until closing. The adjusted EPS improvement year-over-year was driven by higher production volumes on favorable model mix on the 737 program, the non-repeat of forward losses on the 787 program, higher margin on the A350 program, as well as lower share count as we executed our share repurchases.

Turning to free cash flow on slide 6, adjusted free cash flow was strong for the quarter at $209 million compared to $118 million in the first quarter of 2018. This reflects a 77% increase year-over-year. Adjusted free cash flow excludes $8 million, which is the impact of the Asco acquisition. This amount is comprised of transaction payments and the cash based on the FX derivative instrument. The adjusted free cash flow growth was driven by improved margin performance, better management of working capital, and lower employee incentive compensation payments.

Turning next to capital deployment on slide 7, in the first quarter, we repurchased approximately 800,000 shares for $75 million, which leaves $925 million remaining under our current share repurchase authorization. We remain very confident in our ability to sustain operations and our long-term balance cash deployment strategy remains unchanged. However, we feel it is prudent to pause additional share repurchases until we have further clarity surrounding the 737 MAX.

Now, let's look at our segment performance. For our Fuselage segment results, please turn to slide 8. Fuselage segment revenue in the quarter was $1.1 billion, up 11% from the same period last year. This was due to higher production volumes on the 737 and 787 programs as well as higher revenue recognized on the 787 program. Operating margin for the quarter was 13% compared to 12.4% in the same period last year, primarily driven by the non-repeat of forward losses on the 787 program and higher aftermarket activity. As planned, the first quarter absorbed most of the near-term costs associated with increasing rate as we have already begun to transition to 57 APM on the 737. As you know, the transition to the higher rates has been delayed.

Now, turning to slide 9 for our Propulsion segment results. In the first quarter, Propulsion revenue was $486 million, up 23% compared to the same period last year, primarily driven by higher production volume on the 737 program and higher revenue recognized on the 787 program. Operating margin for the quarter was solid at 19.7% compared to 13.4% in the first quarter of 2018, primarily due to favorable 737 model mix as we transition from the NG to the MAX. In Q1, over 75% of 737 deliveries were MAXs.

In our Propulsion segment, the 777X is going to be a very strong program with the large GE9X engine. The nacelle and thrust reverser package will grow proportionally, driving additional Propulsion revenue for Spirit. The 777X program is progressing well and executing according to plan. We have already delivered the first eight shipments to Boeing, including test units. This will be a very important program for Spirit.

For our Wing segment results, let's turn to slide 10. Wing revenue in the quarter was $408 million, up 8% compared to the same period last year, driven by higher production volume on the A320, 737, 777, and 787 as well as higher A350 wing deliveries. Operating margin for the quarter was 16.1% compared to 13.5% in the first quarter of 2018, primarily driven by performance on the A350 program. As Tom mentioned, our previously issued 2019 financial guidance does not reflect the impacts of the 737 MAX production rate increased delay. Due to the uncertainty of the timing of the production schedule on the 737 program, we will issue new guidance at a future date.

We're looking at all aspects of the business to lessen the financial impact of the delayed production rate increase. We will minimize over time, reduce contractors and not hire for attrition. We're also tightening our belt to delay or reduce discretionary spend areas. At the same time, we will be thoughtful to maintain the resources necessary to transition smoothly to the previous planned higher production rates. We've taken a conservative and proactive approach to ensure adequate levels of liquidity. We have been prudent to maintain balance sheet flexibility and we are confident in our plans to manage working capital and pace fixed asset investments.

With that, I will turn it back over to Tom for some closing comments.

Thomas C. Gentile III

President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.

Thanks, Jose, and I will make some closing comments before we take questions. This is a challenging time for our industry, and we are working with Boeing to support them as they focus on returning the MAX to service. Before the change to the MAX production schedule, we were executing to our previous schedule and delivered strong financial results for Q1. Overall, Spirit is performing very well across all of its programs and is well positioned for the future.

The changes in the MAX production schedule will result in us maintaining the production rate of 52 aircraft per month, longer than previously planned. While this will result in fewer units produced this year, it will also give us more time to stabilize our production system and improve quality and efficiency.

We have taken several actions to mitigate the impact of the new 737 production schedule. The cost actions, along with the working capital improvements and the changes to our capital expenditures, will partially offset the impact of the MAX production changes on profit and cash flow. We will clarify the magnitude of these changes once we have better visibility to the production schedule after the MAX returns to service. Additionally, we are committed to closing and integrating Asco in Q2, and executing rate increases on the other programs, specifically the A320 and the 787.

With that, we'd be happy to take your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] And today's first question comes from Myles Walton of UBS. Please go ahead.

Louis Raffetto
Analyst, UBS Securities LLC
Q

Hey, good morning. This is Lou Raffetto on for Myles.

Thomas C. Gentile III
President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.
A

Hello Lou.

Louis Raffetto
Analyst, UBS Securities LLC
Q

Just wondering if you could dig a little bit deeper into the margin performance in Fuselage. I know you talked about it being down sequentially, up year-over-year, but last year you did take a number of $15 million or so of cum catches and forward losses. So, I mean, if we think about you staying at that 52 rate, if you weren't going up, if you don't have those extra costs for 57, where do you think you could have been I guess?

Thomas C. Gentile III
President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.
A

Right. Well, that was really the biggest driver of the Fuselage margin performance was on 737 and it had to do with the fact that we had already put all the costs in place for 57 aircraft per month, but we're still only delivering and getting paid for 52. In addition, in Q1, we were doing a lot of rehearsals for the 57 rate. That meant loading three units per day for several days in a row and we did that six or seven times throughout the quarter and it drove more cost, so we expected that, and also, all of the cost reductions, a lot of them, are basically sliding in over the course of the year.

So, we're on track for improved market performance. But, of course, we're going to see some headwind now from the lower production rate at 52 versus 57 for the back half of the year. The other thing I'd say about the Fuselage margins is that it also had to do with the 787. We accelerated revenue based on the way we've changed the pricing structure with Boeing on the 787 into this quarter from future periods. And the 787, as you know, is a zero margin program and so that was also a headwind on margin for the Fuselage. But again, as we go forward for the year, we're going to get the cost down and align it to the 52.

So that'll be contractors will go down over time significantly and actually well below the rate that we had previously planned. And as Jose mentioned, we're not going to backfill on attrition, so the direct labor will come down as well. And we'll start to see margin improvement in the Fuselage segment over the course of the year.

Louis Raffetto
Analyst, UBS Securities LLC

Q

Okay, great. Thank you. Just one quick follow up, the unallocated cost was negative $8 million. Was there another insurance proceed in there or anything else is unique?

Jose Ignacio Garcia
Senior Vice President & Chief Financial Officer, Spirit AeroSystems Holdings, Inc.

A

No, there was a gain on the settlement of our longstanding warranty disputes, which we had reserved, and the settlement was less than what we had in the reserved.

Thomas C. Gentile III
President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.

A

So, it was just a release of that reserved.

Jose Ignacio Garcia
Senior Vice President & Chief Financial Officer, Spirit AeroSystems Holdings, Inc.

A

Yeah. So, we had a benefit there.

Louis Raffetto
Analyst, UBS Securities LLC

Q

Okay, perfect. Thank you very much.

Operator: And our next question today comes from Doug Harned of Bernstein. Please go ahead.

Douglas Stuart Harned
Analyst, Sanford C. Bernstein & Co. LLC

Q

Thank you. Good morning.

Thomas C. Gentile III
President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.

A

Good morning, Doug.

Jose Ignacio Garcia
Senior Vice President & Chief Financial Officer, Spirit AeroSystems Holdings, Inc.

A

Good morning.

Douglas Stuart Harned
Analyst, Sanford C. Bernstein & Co. LLC

Q

When you look at Propulsion and Wing Systems, you talked about the strong margins you had, model mix in Propulsion on the 737 and the Wing Systems in A350, I mean, those are only going to get better over time I would assume. So, if you were to, for the moment, take away the issues around the MAX timing, I mean, structurally, are these units setup to give the better kinds of margins that you're seeing in Q1?

Thomas C. Gentile III
President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.

A

Yes. Exactly, Doug. We expect those trends to continue. And the simple reason is when you look at the changes in the MAX and the 777X, a lot of the changes were bigger engines in both cases, which require bigger pylons and also bigger thrust reversers. And in the case of the 777X, we also built the entire nacelle including the inlet and the fan cowls, and so the work packages grew substantially on those. And so, we put a lot of effort in terms of our cost reduction programs in those areas. And so as we go forward, we will see better margins. In fact, we signaled that in one of our previous calls. We said that you're going to see the margins on Propulsion go up faster than the Wing and the Fuselage, and that's going to be a key driver of our margin improvement, not only this year, but into next year and beyond.

Douglas Stuart Harned
Analyst, Sanford C. Bernstein & Co. LLC

Q

And just to make sure, some of the issues you had in Fuselage were you had the extra costs for the 57 a month rate. Those should also exist in Propulsion and Wing to some extent. So, was that a negative in there...

Thomas C. Gentile III
President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.

A

Well, the...

Douglas Stuart Harned
Analyst, Sanford C. Bernstein & Co. LLC

Q

...that we should be aware of?

Thomas C. Gentile III
President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.

A

No, you're absolutely right. They did exist. It's just that the overall benefits in those areas offset it more than they did in Fuselage. But, again, we've got a lot of our cost reduction actions on Fuselage that will be sliding in over the course of the year. So, we expected Q1 to be a little bit lower, and then for the margins to gain momentum as we went through the year. We'll still see that although we will have the headwind of the MAX production change that I described before.

Douglas Stuart Harned
Analyst, Sanford C. Bernstein & Co. LLC

Q

Okay. Well, very good. Thank you.

Thomas C. Gentile III
President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.

A

Thanks, Doug.

Operator: And our next question today comes from Carter Copeland of Melius Research. Please go ahead. Hello, Carter...

Thomas C. Gentile III
President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.

A

Hello, Carter. Are you there?

Operator: ...your line is open.

Carter Copeland
Analyst, Melius Research LLC
Q

Sorry. I was on mute.

Thomas C. Gentile III
President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.
A

Okay. We couldn't hear you so...

Carter Copeland
Analyst, Melius Research LLC
Q

Have you got me?

Thomas C. Gentile III
President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.
A

Thank you. Okay. Yeah.

Carter Copeland
Analyst, Melius Research LLC
Q

Yeah. I have apparently still not learned how to use the mute button. So...

Thomas C. Gentile III
President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.
A

I knew you were there and I knew you're on mute so.

Carter Copeland
Analyst, Melius Research LLC
Q

No, that's great. So, look, I wonder if you could just give us a little bit of detail on the mix impact in Propulsion that you called out, just what was going on there. And then, any commentary on the A350 profitability delta that you mentioned so, both of those would be helpful. Thanks.

Thomas C. Gentile III
President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.
A

Okay. Well, two things on 777X. The first is what I was just saying to Doug is that the propulsion package, it got bigger proportionately with the bigger engine. So, if you look at the GE90-115B, it was 128 inches in diameter. The GE9X for the 777X – the 777-9, is 132 inches in diameter and so it's bigger. But everything grows proportionately. So if you look at the inlet and the fan cowls and the thrust reverser, it's just much bigger. And we have some pictures where we see people standing in front of them and it's significantly larger when you look at the 777-9 compared to the 777-300ER propulsion package.

So, that's one thing is that the work package is just better, significantly bigger, and we've been able to drive a lot of cost reduction as we've made the transition. The other fact to note about the 777 is we did start to see a recovery in the volume in Q1 versus 2018. So, there were 13 shipments versus 9. And again as we get through this transition, we expect the 777 to get back up to higher levels of production per month, perhaps not up to the eight that we were at, but back to five from where we were. So, those are the two things that are going to drive 777X.

In terms of the A350, that is just something that we have been working on as we go forward. We are taking cost out of the program through a lot of the efforts that we've made in terms of supply chain and those are now kicking in not only in the Boeing programs, but also on the Airbus programs. And then we've also just made some improvements in our factory productivity. We've invested in some new capital and that's driving productivity as well as improved quality and efficiency. So, those are the things that are driving the A350 program, improved profitability.

Carter Copeland
Analyst, Melius Research LLC Q

Okay, great. Thanks for the color. I'll let somebody else ask.

Thomas C. Gentile III
President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc. A

Okay. Thanks, Carter.

Operator: And our next question today comes from Rajeev Lalwani of Morgan Stanley. Please go ahead.

Rajeev Lalwani
Analyst, Morgan Stanley & Co. LLC Q

Good morning, gentlemen.

Thomas C. Gentile III
President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc. A

Good morning, Rajeev.

Rajeev Lalwani
Analyst, Morgan Stanley & Co. LLC Q

Tom, I wanted to come back to some of the comments you made around the cost for 57, et cetera. Can you provide a little bit more color as to how quickly you can get some of those costs out? Can we see that as early as 2Q? Is there really going to be a steady ramp through the year? And then you didn't talk too much about some of the surge costs that you were incurring as you were trying to catch up. Did that show up in 1Q, and is that an opportunity also where we can see maybe a quicker catch up into 2Q and so on?

Thomas C. Gentile III
President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc. A

Yes, absolutely. First of all, in terms of getting the costs down on the 737 production, we've already switched to those three lines that I mentioned. And we have these buffer days. So, those buffer days also act as unscheduled days where we can take our entire workforce that's present and basically apply them to travel, work or fixing various quality issues that may have emerged. And so, what we used to use for overtime and contractors will now be taken up with those unscheduled days with the active workforce. So, we will start to see the contractors move down very quickly, as well as the overtime, well below our previously planned levels. And so, that is going to start happening. So, we'll see an impact in Q2 on that.

We've also identified, as we mentioned, a number of actions that we're taking on discretionary costs like purchase services, travel, as well as all of the other discretionary expenses. And so, this event has really instigated a significant activity in that area, so that's going to come down as well, and that already started. Those changes are already under way. The resources I mentioned in Q1 that were related to surge, again, those go away now. Now that we aren't going to go to 57, we don't need those surge resources. And of course, the rehearsal stopped. So, we're not going to do any more 57 rehearsals until much later in the year when we start to get ready to go back to 57.

So, all those things mean that I think you'll start to see the improvements in Q2, and we've laid out all of the cost actions so that they kick in over the course of the year to mitigate and offset the impact of the MAX production changes.

Rajeev Lalwani
Analyst, Morgan Stanley & Co. LLC

Q

Thanks, Tom.

Thomas C. Gentile III
President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.

A

Okay. Thanks, Rajeev.

Operator: And our next question today comes from Seth Seifman of JPMorgan. Please go ahead.

Seth M. Seifman
Analyst, JPMorgan Securities LLC

Q

Thanks very much. Good morning.

Thomas C. Gentile III
President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.

A

Good morning.

Seth M. Seifman
Analyst, JPMorgan Securities LLC

Q

I wonder if you could talk a little bit about the cash flow which is quite strong in the quarter. Payables were up, and that had been a strong source of cash last year, and you talked about some reversal on that front in 2019. Is that still in front of them?

Thomas C. Gentile III
President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.

A

Yeah. Well, let me – I'm going to ask Jose to answer that, because he's come on and really focused on this area and helped drive the strong cash flow performance. So, Jose, if you...

Jose Ignacio Garcia
Senior Vice President & Chief Financial Officer, Spirit AeroSystems Holdings, Inc.

A

Yeah. So, I mean, really, the number one driver was improved margins. So, even though the margin rate improvement was modest in Fuselage, in terms of dollars, we did perform a lot better than last year. We also had a big benefit on the employee incentive compensation, which was lower, and this was a result of the results in 2018. But also around working capital in general, we have a good momentum going into the year around collections, billing quality, getting past due result payables, especially days outstanding on payables where we're really moving our supply chain to longer payment terms in line with industry. Better inventory management which were to longer payment terms in line with the industry, better inventory management, which we're in early days.

And obviously, this reduction in rate will put some pressure on some of our inventory targets as we help the supply chain stay healthy, but we do have a big playbook, I would say, around all the working capital items at work. You'll probably notice too that CapEx was slightly less. And so, that's the effect of the CapEx delay programs that we put in place also starting to show in the first quarter.

Thomas C. Gentile III
President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.

A

So, from the standpoint of cash, we have more levers over the course of the year. So, we expect to be able to mitigate most of the impact from the 737 production slowdown. We're going to see more headwinds on the profit side, but on cash, we've got good momentum after Q1 and we're going to continue to drive the initiatives that Jose just described.

Seth M. Seifman
Analyst, JPMorgan Securities LLC

Q

Excellent. Thank you very much.

Operator: And the next question today comes from Ronald Epstein of Bank of America Merrill Lynch. Please go ahead.

Kristine Tan Liwag
Analyst, Bank of America Merrill Lynch

Q

Hi. Good morning, guys. It's Kristine Liwag calling for Ron.

Thomas C. Gentile III
President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.

A

Good morning.

Jose Ignacio Garcia
Senior Vice President & Chief Financial Officer, Spirit AeroSystems Holdings, Inc.

A

Hello.

Kristine Tan Liwag
Analyst, Bank of America Merrill Lynch

Q

Hey. Tom, for the 787 and the A350, how should we think about unit cash profit for each of these programs and how are you trending versus your expected learning curve?

Thomas C. Gentile III
President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.

A

Right. Well, 787 is still in the forward loss position and it will be up to line unit 1405. So, it's a zero-margin program and will remain at that level until then. At that point, as we said last year when we signed our new agreement with Boeing, from 1405 up to line unit 2205, we've put in place pricing that will exceed cost. Now, initially, it will just exceed what the projected cost is at line unit 1405, but our goal is to continue working with Boeing to take cost down on that program so we get up to healthier margins. But that's all out beyond 1405, which impacts in about 2022 – mid-2022.

With regards to A350, as you recall when we did the global settlement with Airbus back in 2016, we had at that point about $700 million of deferred with the forward losses that we had announced was about $250 million. And so, the goal was to collect basically $400 million over the last 700 units and we're more or less on track to that. There have been some changes and adjustments along the way. But when we went to the new revenue recognition system, ASC 606, we basically reset that program and it became cash flow positive, and it's cash flow positive now and generating positive margins. Team is working of course very hard to improve productivity and efficiency to get the margins higher, but it's contributing positively right now to our overall results. We're pleased with that.

....

Kristine Tan Liwag
Analyst, Bank of America Merrill Lynch

Q

That's great. And then, in the quarter, you recorded a few favorable changes on forward loss programs across all your segments in Fuselage, Propulsion and Wing. Can you discuss what's driving that and are these related to the contract changes that you mentioned or are these adjustments because of better execution?

....

Thomas C. Gentile III
President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.

A

It was really the better execution was mostly related to the 787 program and the team has been driving supply chain savings, process improvements factory automation, data analytics. So, a whole series of initiatives that just drove improved performance, which resulted in the reversal of the forward loss and the improvement in that program.

....

Kristine Tan Liwag
Analyst, Bank of America Merrill Lynch

Q

Great. Thank you.

....

Thomas C. Gentile III
President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.

A

Welcome.

....

Operator: And our next question today comes from Sheila Kahyaoglu, Jefferies. Please go ahead.

....

Sheila Kahyaoglu
Analyst, Jefferies LLC

Q

Hi. Good morning and thank you.

....

Thomas C. Gentile III
President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.

A

Good morning, Sheila.

Sheila Kahyaoglu
Analyst, Jefferies LLC

Q

I guess your difference in non-essential CapEx, can we talk about how would that means for maybe other programs potentially? And just kind of on a somewhat related note, when we think about the NMA, how does the 737, if at all, change your discussion on that aircraft? Thank you.

Thomas C. Gentile III
President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.

A

Well, right, with regards to the capital expenditure, again, with a very serious situation like we see in front of us, we've just taken a hard look at all of the capital expenditures to see what could we delay or defer that wouldn't impact our overall programs. And it's really about the maintenance-type capital expenditures for infrastructure. I mean, there's always buildings to repair, roofs to replace, new sidewalks, these kinds of things, and those are important. But when you have a very serious situation, you can find ways to make do with what you have for a longer period of time.

So, that's what we did. We made the changes so that we wouldn't impact productivity or growth initiatives but that we would defer a lot of the maintenance activities while we preserve growth in R&D. So, that was really the focus there.

Now, with regard to the NMA, that probably is a better question for Boeing. Clearly, Boeing has said in its press release that its major focus right now is on getting the MAX back to service. So, we haven't been talking to Boeing at all about the NMA. During this period of time our focus has been entirely on the MAX, and adjusting the production schedules, making sure we're delivering quality, and just redesigning now our delivery schedule given that there have been some changes to it. So, that's where our focus is right now.

Sheila Kahyaoglu
Analyst, Jefferies LLC

Q

Right. Thank you.

Operator: And our next question today comes from Robert Spingarn of Credit Suisse. Please go ahead.

Robert Spingarn
Analyst, Credit Suisse Securities (USA) LLC

Q

Hi. Good morning. Tom, I just wanted to...

Thomas C. Gentile III
President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.

A

Good morning.

Robert Spingarn
Analyst, Credit Suisse Securities (USA) LLC

Q

...start on 737, couple of things there, and then I have a higher-level question. How much space do you have for finished excess 737 fuselages? That's the first part.

And then second, I know you're getting some cash advances here from Boeing, but do they have any obligation to compensate you for the excess cost here? Or is this the kind of situation that's just not contemplated in the contracts?

Thomas C. Gentile III
President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.

A

Well, first of all, space. The good news is we're in Kansas and we have a lot of flat land here and plenty of space. Our facility sits on a very large campus. It's more than 2 miles square across the street. We have the former Boeing Defense facilities which are now a company called Air Capital Flight Line and we have plenty of space. We can store as many fuselages as we have in any scenario that we have planned, so no constraints at all on that.

With regard to the cash advance, we work with Boeing specifically on that to help us with supply chain working capital. So a lot of our suppliers had already, again, transitioned to 57, they had bought all their equipment and inventory for 57. And so it's going to take us a little bit longer to work that down. And so we've given now the new indications for inventory levels and production and shipping but it takes some time to work down and there's working capital involved and the advance from Boeing helps address that.

With regard to...

Robert Spingarn
Analyst, Credit Suisse Securities (USA) LLC

Q

What about the lower absorption?

Thomas C. Gentile III
President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.

A

Yeah. I'm sorry.

Robert Spingarn
Analyst, Credit Suisse Securities (USA) LLC

Q

The lower absorption. The fact that you're producing below plan and that's a more permanent hit to earnings.

Thomas C. Gentile III
President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.

A

Right. There's no compensation built into the contracts for that. We work always with Boeing to adjust things. We're trying to be flexible and adapt. We're trying to be supportive of them as they go through this difficult period.

Of course this was an unexpected event, but if you look at the overall economics of Spirit, we're taking the actions to mitigate the impact of those production changes. And so while there's no direct compensation from Boeing, we obviously worked out a very good deal with Boeing to help us stabilize production during this period and remain poised to return to the production rates that we had planned later in the year. So, I think the two organizations have worked very well together to mitigate the impact of this and allow Spirit and its supply chain to remain as stable as possible during this transition period.

Robert Spingarn
Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. And then just for the higher level one, you've put up about 15% to 17% margins ex-CACs over the past two, three years. But we've had ramps. We've had issues. We've had a variety of things. What is the mature profitability, profit margin of the business once we are at targeted rates and all of this noise is behind us? So [indiscernible] (44:06)?

Thomas C. Gentile III
President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.

A

Right. What we said last year is 16.5% was a good number because that's about where we were back in 2016 when we were stable. So if you go back to 2016, we were at 42 aircraft per month. We've been there for more than three years, and we were stable at about 16%. Now in our industry there's lots of headwinds. There's productivity expectations from the customers. There's step-downs. There's increases in labor and material, and we have to offset those. I always say you have to run fast to standstill. But 16% was a good number back in 2016, and so we took that number as the basis for what we think our long-term projection will be.

Now we adjusted that upwards because since 2016, of course, we've had tax reform. We've had a change in our revenue recognition. And so we said our long-term targets should be higher than what it was in 2016, and that's why we said 16.5%. And that still remains our long-term target, and we're confident we'll get there. Now we've got headwinds this year. We're going to work to mitigate those and offset them. But the long-term target is still in that range, 16.5%.

Robert Spingarn
Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. Thanks, Tom.

Operator: And our next question today comes from David Strauss of Barclays. Please go ahead.

David Strauss
Analyst, Barclays Capital, Inc.

Q

Thanks. Tom, the MOA with Boeing I think runs until May 1 of next year. Should we read anything into that?

Thomas C. Gentile III
President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.

A

No. I mean we had to pick a date and we picked that date. But the real key is when does the MAX go back into service and when does Boeing go back to 57, and then, of course, finally when do we go back to 57. Because what's going to happen is that we're at 52 right now. Boeing's at 42. So, we're going to be producing more aircraft than they are for a period of time. And those will get stored or buffered and then shipped off to Boeing.

Once they go to a higher rate than we are at, we'll start to burn down that inventory. And so, those are really the relevant points to take note of. The May was really just we needed a date for the contract to run to and that's what we picked. But it has no bearing on any of the production or operational issues. What's going to be important is when does the MAX return to service, when does Boeing go back to 57 and then when does Spirit go to 57.

David Strauss
Analyst, Barclays Capital, Inc.

Q

Okay. And then contractually, how much – I mean if things were operating normally, how much lead time is Boeing supposed to give you if they had to actually adjust your rate down?

Thomas C. Gentile III
President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.

A

Yeah. We did look at that and there is a contractual obligation, but it's not really relevant. We work very closely with Boeing every day and we work on that. And there's a very nominal penalty if they don't meet the lead time but look, in a situation like this our goal is to figure out how do we support Boeing. It's a very challenging time for the whole industry and that's what we did as we were able to come up with a solution that worked for both parties, and is very effective as we go forward.

David Strauss
Analyst, Barclays Capital, Inc.

Q

Okay. Thank you very much.

Operator: And our next question today comes from George Shapiro with Shapiro Research. Please go ahead.

George D. Shapiro
Analyst, Shapiro Research LLC

Q

Hello?

Thomas C. Gentile III
President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.

A

Hi, George. How are you doing?

George D. Shapiro
Analyst, Shapiro Research LLC

Q

Okay. I wanted to ask – you have a 200 – roughly 200-aircraft pool on the 737. So, what's the status? Was that pool completed in the quarter or it's going to be completed in April? Because I would assume a lot of the extra cost were factored into that pool so the subsequent pool will have effectively better margins?

Jose Ignacio Garcia
Senior Vice President & Chief Financial Officer, Spirit AeroSystems Holdings, Inc.

A

Yeah, George, 98% of the block was completed in the first quarter. So, we're really going into the second quarter in a new block of 200 units. So, we do expect, again, ex the rate impact, improved margins on this next block.

George D. Shapiro
Analyst, Shapiro Research LLC

Q

Okay. And then if you could comment – you mentioned, Tom a lot is much we get better revenue on the 777X because of everything being bigger. Could you just comment like on how much higher that is or just give a percentage better revenue that you get just so we can get some color on it?

Thomas C. Gentile III
President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.

A

Right. Well, as I was saying, the 777X just has a bigger engine. The difference is 128 inches to 132 inches in diameter. And so the entire nacelle and thrust reverser package scale up proportionately. But the issue I mean – so obviously the revenue is going to be higher, but the margins depends on all the work that we're doing in our supply chain, in our factories, across our entire business to improve the margin on that program. So, that's the same thing in a little bit smaller scale that happened with the MAX.

The LEAP engine is bigger than the CFM56-7B engine. And so, the thrust reverser that we build for it is bigger and similarly, the pylon which holds the engine to the wing is also bigger and stronger and so that drove revenues.

But, I think the key point here is what's driving our margin rate is all the things that we're doing on our cost side. We're working with our suppliers. We're driving supply chain efficiency. We're also working in our factories through our engineered factory automation initiatives and driving improved productivity in the factories. And that's what's really impacting the margins not only on propulsion, but also on [ph] wing (49:51) and fuselage.

George D. Shapiro
Analyst, Shapiro Research LLC

Q

Oh, yeah, I mean, I asked the question about sales because the propulsion revenues even – it seemed somewhat higher than what I would have thought even adjusting for the higher deliveries and also just trying to get at what percentage sales more that might – they might be which maybe explains it?

Thomas C. Gentile III
President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.

A

Right. Well, it's the – yeah, I think another thing that drives it, George, is the MAX shift. So, we were probably only producing 60% MAXs in Q4 and went to 75% in Q1. And basically, we're not going to produce [ph] very many end use (50:27) going forward at all except for P-8s. And so, it's really a model mix change as well that drove that higher level of revenue on the propulsion.

George D. Shapiro
Analyst, Shapiro Research LLC

Q

Okay. Thanks very much.

Thomas C. Gentile III
President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.

A

Okay. Thank you.

Operator: And our next question today comes from Cai von Rumohr of Cowen and Company. Please go ahead.

Cai von Rumohr
Analyst, Cowen and Company, LLC

Q

Yes. Thank you very much. So, Tom, you mentioned that you're going from 2 to 11 buffer days. What does that mean for the guy on the line there, does he basically have to take those incremental five days off or was he getting overtime, so now he's just going back to normal work hours?

Thomas C. Gentile III
President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.

A

Yeah. Well, just to clarify, we were having two buffer days per line. So, it's about six buffer days before, and we'll add another five or six, depending on the M-days for each month.

Cai von Rumohr
Analyst, Cowen and Company, LLC

Q

Okay.

Thomas C. Gentile III
President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.

A

But the answer to your question is, no. We're not going to furlough workers and we're not planning any layoffs. What we're going to do on those unscheduled days is we're just going to apply the workers to existing work. So, in our factory, in every factory, you always have a certain amount of traveled work and things that need to get done. And the way we were getting that work done before is we had a base level of contractors and overtime, and we built that into our system. It was in our plans.

What we will do now is, because we have more buffer days, is we won't need that much overtime and we won't need as many contractors. And so, that's what the people will do on the unbuffered days, is they will do that kind of work.

Now, and believe me, there's plenty of work to do. We can also use those days for training, which would normally come out of work time. But the advantage of doing it this way is that we're still producing at a takt time of 57 APM, aircraft per month. And so, that continues.

And so, when we do go up eventually, back to 57, we just take out the buffer days and we'll be there. And, by the way, if we go up to the higher rates, we'll take out more buffer days because we have three lines, and each line has a capacity of 21 per month. So, that's how we have set up the production system and the buffer days enable us to go down in rate and use the non-scheduled buffer days to improve productivity and efficiency.

Cai von Rumohr
Analyst, Cowen and Company, LLC

Q

Got it. And the last one, on your, the lead time versus Boeing. I mean, you've delivered last year and this year combined, it looks like something like 90 more 737 fuselages or shipsets than they've delivered. How long are you ahead of them so that if they go to 57, you'll have to stay at the lower rate of 52.

Thomas C. Gentile III
President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.

A

Well, obviously, we have been ahead of them. They didn't deliver anything in Q1.

Cai von Rumohr
Analyst, Cowen and Company, LLC

Q

Right.

Thomas C. Gentile III
President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.

A

So that's part of the issue. The issue in terms of when we go to 57 it really – it depends on how long we stay at 52 when Boeing goes back to 57 because as I said, we'll build up some inventory of fuselages. Now, we're producing at a higher rate than them. And when they go – let's say, they go back up to 57, we'll stay at 52 to burn off five per month going forward. And so, we'll be at 52 for as many months as it takes us to burn off at a rate of five per month that we have in inventory at that time. And we'll know those bright points as we get forward. Yes. You're welcome.

Cai von Rumohr
Analyst, Cowen and Company, LLC

Q

Got it. Thank you.

Thomas C. Gentile III
President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.

A

Okay.

Operator: And our next question today comes from Michael Ciarmoli of SunTrust. Please go ahead.

Michael Ciarmoli
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Hey. Good morning, guys. Thanks for taking the questions. Just to follow up maybe on Cai's question there. On the inventory and maybe dovetailing this into cash, you've got the agreement with Boeing, you'll get paid, but I mean is that inventory owned then by Boeing? Just to clarify that.

Thomas C. Gentile III
President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.

A

The answer is yes. So, we deliver right now outside our factory, FOB, free on board. Boeing pays us and they own the fuselage and the shipset at that point. Now, we will store it but Boeing owns it. They will have paid for it and it will be on their books and so they'll have the insurance liability as well. So that was a part of the deal that we structured and it's very good obviously for us in terms of working capital and cash flow, and we think it was a good outcome, and it's something also that will help Boeing during this period.

And let me just follow up is that we are ahead of Boeing in terms of delivering fuselages. But the point of them keeping the supply chain at 52 while they go to 42 is that – while they're building aircraft, they can store them, they'll be able to deliver them very fast once the MAX gets back into service. And so, they'll be able to catch up to us in effect very quickly. So, that's how it works out is they do pay us as we deliver the aircraft outside of our factory, we'll store them, but they'll have already paid for them and they will only the fuselages at that point.

Michael Ciarmoli
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Got it. And then, just the last one maybe more on working capital too. What's the message to your suppliers who've been ramped and prepped for 57, I mean would you – are you guys in position to take their excess inventory or does that inventory build for those sub-suppliers who are at 57? Does that have to flow back through the supply chain? I'm just trying to figure out how you make sure they remain prepped, healthy and ready for 57?

Thomas C. Gentile III
President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.

A

Right. It really varies on a case-by-case basis. We're working individually with each supplier. Our goal is to make sure we monitor the financial health of all of our suppliers and we're paying particular attention to suppliers who may have weaker financial positions. But we've come up with a variety of solutions. We're not changing their schedules right away. So, in some cases, we're tapering them down so that we can absorb the inventory. In some cases, we're converting what might be vendor owned inventory into Spirit owned inventor. That was the purpose of the advance from Boeing.

The goal is to make sure the supply chain remains healthy throughout this process. And so we're developing really unique tailored solutions for every single supplier.

Michael Ciarmoli
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Got it. That makes sense. Thanks, guys.

Thomas C. Gentile III
President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.

A

Thank you.

Operator: And our next question comes from Hunter Keay of Wolfe Research. Please go ahead.

Hunter Keay
Analyst, Wolfe Research LLC

Q

Hi. Thanks for getting me on. As you think about some of the headaches you had with Asco, but also the issues with the MAX sort of highlighting some of the concentration risk obviously with Boeing and MAX itself. How does this change your view on M&A, not necessarily are you going to do it, but how to think about maybe what you prioritize going forward? Thanks.

Thomas C. Gentile III
President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.

A

Well, as I mentioned, Asco is a great strategic deal for us. It's more Airbus content, more military content and more fabrication capability. It took longer because of the European Commission process, but we've also learned a lot on that, and in the scheme of things, this isn't really too long for a European deal to get approved.

So, we're not at all discouraged by that. In fact, we're encouraged by how good of a strategic fit that Asco is. And, as I mentioned, we did get a price adjustment from $650 million to $604 million to take into account that extended period. So, we remain very focused.

Your point about concentration with Boeing on the 737 is one that we, obviously, are quite aware of. And, as I said, we're proud to be on the MAX program. We're proud to be a partner of Boeing. We want to continue to grow both of those programs, and we see a significant opportunity to do that.

At the same time, of course, we want to grow other parts of our business. And so, as we go forward, our inorganic strategy will continue to remain on things like more Airbus content, more military content, more low cost country footprint, more fabrication capability. So, those certainly remain strategic focuses on our inorganic strategy.

Hunter Keay
Analyst, Wolfe Research LLC

Q

And, Tom, does it maybe ramp the urgency a little bit? Does this recent issue sort of ramp the urgency to diversify or are you still going to kind of just try to remain just as disciplined as you were before?

Thomas C. Gentile III
President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.

A

We want to remain disciplined. Certainly, this situation has had a tremendous impact on the whole industry, including Boeing and Spirit and in many others. But we don't want to be in a rush to do anything. That's when you end up doing a bad deal or overpaying. So, we're going to remain very disciplined about our inorganic strategy.

Hunter Keay
Analyst, Wolfe Research LLC

Q

Thank you.

Thomas C. Gentile III
President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.

A

Thanks.

Operator: And today's final question comes from Krishna Sinha of Vertical Research Partners. Please go ahead.

Krishna Sinha
Analyst, Vertical Research Partners LLC

Q

Hi. Thanks. I think David mentioned in his earlier question that your MOA on the MAX stretches out definitely through the end of this year, halfway through next year. So is it really just the worst case scenario for you guys that you stay at 52 a month this whole year, or is there any possibility that you could move lower than that just given Boeing's inputs? I guess is that MOA kind of ironclad or is there still room for Boeing to push down on rate – down on you guys?

Thomas C. Gentile III
President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.

A

Well, the MOA does establish the 52 aircraft per month. But if the situation changes, obviously, we would work with Boeing to make sure that we're aligned with them in terms of what happens. And, again, going back to what I said earlier, the key dates or milestones will be when does the MAX return to service and when does Boeing increase its production rate beyond to where they are now at 42, back to 52, and then on to 57 which was the previous plan?

So we're going to work closely with Boeing, and we're going to be responsive to what they need in this process. We can't presuppose that. This is a very complex situation. They're working with regulators and airlines around the world, and we're going to support them however we can.

Krishna Sinha
Analyst, Vertical Research Partners LLC

Q

Okay. And then just a quick follow-up, you mentioned in your prepared remarks that you'd have $800 million in cash on the balance sheet at the end of the second quarter. I don't know when you're planning on issuing your revised guidance, but is there any possibility that when you do issue guidance and maybe resume with the buyback that you'll do an accelerated share repurchase at that time if the price remains depressed here or are you just kind of going to go at a regular cadence there?

Thomas C. Gentile III
President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.

A

Well, when the – the key point is going to be when the MAX gets back into service. And at that point, if we still have this high level of cash, which we expect that we will, we will go back to a more normal share repurchase program.

Now, in the past, we've always allocated 100% of our [ph] cash (1:01:07) for the last several years toward share repurchases in the absence of some sort of inorganic opportunity and the goal would be once the MAX is back into service is we'll return to that approach.

Krishna Sinha
Analyst, Vertical Research Partners LLC

Q

Great. Thank you.

Thomas C. Gentile III
President, Chief Executive Officer & Director, Spirit AeroSystems Holdings, Inc.

A

Thank you.

Operator: And ladies and gentlemen, this concludes today's question-and-answer session and today's conference call. We thank you all for attending today's presentation. You may now disconnect your lines and have a wonderful day.